

Retiring Times

Volume 1 Number 4

Retired Municipal Employees

Spring 2002

Message from Vermont State Treasurer James Douglas

Since the Enron debacle remains in the news, especially as it relates to the unfortunate employees who had a disproportionate amount of their retirement accounts in Enron stock, I thought it would be a good time to reflect on how diversification works to protect both private and public assets.

The Board of Trustees of the Vermont Municipal Employees' Retirement System has wisely chosen to diversify the portfolio across asset classes and even within portfolios. Because they have made this effort, the Vermont systems had one of the smallest losses through Enron of any public pension system in the country. Even in the portfolio that held Enron securities, these holdings amounted to no more than 0.93% of that total portfolio. This diversification ensures that even if the portfolio manager makes a mistake and invests in a security that goes down instead of up, the whole portfolio should still be fine. In fact, in the quarter during which Enron declared bankruptcy, the same

portfolio that invested in Enron actually made money, even after the Enron loss.

Diversification works. If you are a participant in the State's 457 Deferred Compensation Plan, or if you have personal savings in an IRA or through a brokerage account, it is important to maintain the discipline to keep your own portfolio diversified. It is a temptation to put all your money in the funds or stocks that are going up, but at the same time it is risky. No one who chases "hot" stocks or funds ever gets it right all the time, and in fact, most individual investors get it wrong most of the time. Keeping a well-disciplined process in place to ensure diversification is important – and prudent.

However, prudent diversification can change with your age. In order to project how best to diversify your portfolio, think about when you expect to need the money. If you are young,

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Message from Cynthia L. Webster, Retirement Operations Director

Municipalities can offer their employees a number of different retirement plans. I would like to explain some of these plans to you.

The most basic division of retirement plans is Defined Benefit and Defined Contribution. Most of you are in the Defined Benefit plan. In this plan, you and your employer pay a set amount toward your retirement. When you retire, you are then guaranteed a set payment for the rest of your life. The amount of this payment depends upon your years of service and your two or three consecutive years of highest salary. Thus, if you retire with 10 years of ser-

vice for a municipality, you receive a smaller pension than if you retire with 20 years of service. At age 62, you also are eligible for an annual cost-of-living adjustment to your retirement payment.

The Defined Benefit plan has four "groups." Each group requires a different level of payment by you and your employer and offers maximum retirement benefits after a certain number of years of service.

Group A has the most members. You contrib-

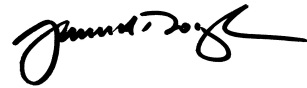
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Treasurer's Message (continued from page 1)

and have many years to retirement, you can take on more risk, and that means more money in the stock market, and less – or none – in bonds. If you are nearing retirement, you might want to start getting out of the stock market and put more money in bonds. Bonds are less volatile, and therefore less risky for older investors. However, for young investors, bonds can be more risky, because the principal doesn't grow, and often does-

n't even keep ahead of inflation. Thus, there is a risk that there won't be enough money there when retirement time comes, and you might as well have stuck it under the mattress.

As always, if you have any questions or comments, feel free to call me at 828-2301, or toll-free in Vermont at 1-800-642-3191.



Director's Message (continued from page 1)

ute 2.5% of your gross salary to your retirement in this group. Your employer contributes 4% of your gross salary. You receive 50% of your gross salary if you retire with 35 years of service.

Group B has almost as many members as Group A. In Group B, you contribute 4.5% of your gross salary and your employer contributes 5% of your gross salary. You receive 50% of your gross salary if you retire with 30 years of service.

Some of you are in Group C, which takes 9% of your gross salary and requires 6% of your gross salary to be contributed by your employer. You

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Director of Retirement Operations:
Cynthia Webster
133 State Street
Montpelier
Vermont 05633-6901
828-2305 or 1-800-642-3191 (In-State)

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Editor: Joseph Bahr

receive 50% of your gross salary if you retire with 20 years of service. Normal retirement occurs at age 55, which is earlier than in groups A and B.

A new plan is Group D, which is restricted to police officers, firefighters, and emergency medical personnel. It is similar to Group C, but includes children's benefits if you are disabled or die while employed. This greater level of protection for your family requires a higher level of contribution. You pay 11% of your gross salary into this plan and your em-

ployer pays 9% of your gross salary.

The Defined Contribution plan also deducts a set amount (5% of gross salary) from you and your employer. After that, the plans differ dramatically. In the Defined Contribution plan, you determine how your retirement funds are invested from a range of choices. You also assume all risks associated with investing the funds. At retirement, your income is determined by the past and future performance of your investments. You might receive more retirement income in this plan than in the Defined Benefit plan, but you could also receive less. It all depends upon how well your investment choices perform over time. There is no guaranteed monthly pension when you retire and there is no automatic cost-of-living adjustment to your monthly payments.

However, the Defined Contribution plan is "portable". If you change jobs, your money can continue to be invested in this retirement plan and may continue to grow. You also can retire at any time after age 55. In addition, upon your death, any funds left in your account can go to your heirs.

For more information on Groups A through D of the Defined Benefit plan, please see our web site at www.tre.state.vt.us/Retirement/vmers.html or our 20-page brochure "Vermont Municipal Employees' Retirement System." Defined Contribution plan members should use a different web page: netbenefits.fidelity.com. And remember, it is never too early or too late to think about your retirement.

Cynthia L. Webster

Where Have All of the Retirees Gone?

You must like Vermont. Ninety percent of all retired municipal employees still live here. Another 2% live in the adjoining states of Massachusetts, Maine, New Hampshire, and New York. In all, 821 of you still live in the Northeast.

What about the other 64 retirees? Forty live in Florida. Nine headed west and live in Arizona or California.



The other 15 retirees are scattered among seven states. Four of those states are in the Southeast. The other three states – each with one retiree – are Pennsylvania, Texas, and Wyoming.

So if you haven't been in touch with old friends from work, you might want to try. The odds are very good that they still live in the area. If you don't find them, drop the Retiring Times a card that includes your name, how to reach you, and the name of the person that you would like to contact. We will publish this information in the next issue of the retirees' newsletter. If your old colleague reads it, you may get a phone call or letter.

Send your card to Retiring Times, Vermont State Retirement Systems, 133 State Street, Montpelier, VT 05633.

Trustee Election In June

The Board of Trustees has five members. Members of the retirement system who are still employed by a municipality or school district elect three of these Trustees. The other two members are the State Treasurer and a delegate from the Governor's Office.

Each of the elected Trustees serves a three-year term, and the terms are staggered so one person's term ends each year. This year, the term of W. John "Jack" Mitchell expires. Mr. Mitchell represents municipal employees in a non-managerial position.

Any member who still works for a municipality or school can run for this Trustee position. Mr. Mitchell can also run for re-election.

While retirees cannot vote for a candidate or run for the Board of Trustees, the Board's actions still affect you. One example is the health care stipend, which must be renewed by the Board of Trustees each year. You will be informed of the election results in the summer issue of Retiring Times.

Deferred Compensation payments to retirees may now be changed. The Economic Growth and Tax Relief Reconciliation Act of 2001 made this change to 401(k) accounts and other tax-sheltered vehicles. Your Deferred Compensation plan administrator should have informed you of these changes. If you have any questions, please contact your Deferred Compensation plan administrator.

Health Care Stipend Renewed For Another Year

Municipal retirees have been receiving a monthly \$30 stipend to help cover the cost of health care insurance. The Board of Trustees voted to continue this stipend during the next fiscal year (July 1, 2002 to June 30, 2003).

The \$30 stipend is not a guaranteed benefit of the Municipal Employees' Retirement System. It is available now because the Retirement System fund is adequate to cover the cost of the stipend. Should the level of these funds decrease, the stipend could be eliminated by the Board of Trustees.



Vermont Municipal Employees' Retirement System
133 State Street
Montpelier, VT 05633-6901

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